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The monetary standard

Washington, D.C.

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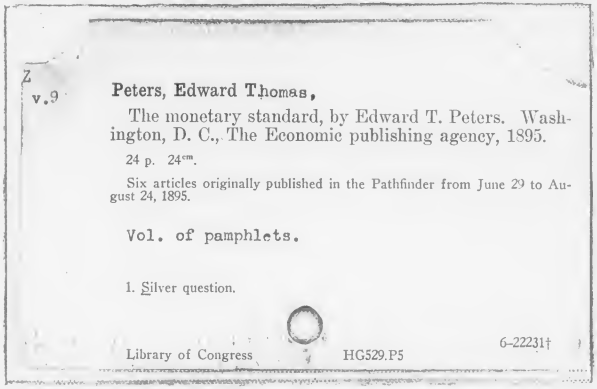

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THE

MONETARY STANDARD

BY

EDWARD T. PETERS

THE

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EDWARD T. PETERS

WASHINGTON, D. C.
THE ECONOMIC PUBLISHING AGENCY
1895

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PREFACE.

The following pages comprise, with a few slight alterations, a series of six articles recently published in THE PATHFINDER, the first having appeared in the number of that journal for June 29th and the last in the number for August 24th. They were meant to present, as impartially as possible, a few of the main considerations bearing on the important question of our monetary standard, which now claims so large a share of public attention.

While the author believes that the adoption of a measure providing for the free coinage of silver in the United States without the co-operation of the other leading nations of the commercial world would be a calamitous error of public policy, leading to far greater evils than any for which it is proposed as a remedy, he yet finds much to agree with in the principles contended for by the advocates of free silver and bases his dissent from their practical conclusion mainly on a different view from theirs as to certain essential facts.

One important point of difference relates to the extent to which silver now does duty as money, and, by its presence in the circulation of various countries, mitigates the tendency of gold monometallism to cause an increase in the value of the monetary unit. Another relates to the tests by which the stability of the value of money is to be judged, it being an error to assume that the extent of the fall in prices is a true indication of the extent of the rise in the value of money, since this implies that goods, taken in the aggregate, constitute a fixed standard of value, which they certainly do not. Both of these points have been more fully discussed by the author in other writings—the first in an article on "Practicable Bimetallism" not yet published; the second in a paper on "Tests of Stability in the value of Money," read in August, 1894, before Section I of the American Association for the Advancement of Science and also in one on "Money as Related to Debts" read on May 21, 1895, before the National Statistical Association.

That an appreciating currency is an evil, not merely to be deprecated, but, if its existence be fairly established, to be attacked with a view to its removal, is a belief which the writer shares with the advocates of free coinage for silver; but he realizes the necessity of taking care not to replace one evil by another of greater magnitude.

WASHINGTON, D. C., August, 26, 1895. E. T. P.

THE MONETARY STANDARD.

I.

VALUE OF MONEY AS AFFECTED BY THE SUPPLY.

THE OBJECT in view in preparing this series of articles is to bring under notice some of the chief arguments advanced for and against each of the leading policies, with reference to the standard of value, that are now prominently advocated. These policies may be designated as:—

1. The policy of gold monometallism.
2. The policy of international bimetallism.
3. The policy of American bi-metallism, or, in other words, bi-metallism for the United States, without the co-operation of other nations.

A correct understanding of these policies, of the effects to be expected from their operation, and of the arguments bearing upon them, depends in part on an acquaintance with facts and in part on a right apprehension of certain economic principles. Among the latter there are two which may advantageously be considered at the very outset. One of them is a natural law relating to the circulation of money which was expounded by Sir Thomas Gresham in the 16th century, and in a somewhat extended form is now commonly known as "Gresham's Law." This we will, however, pass over for the present and devote the remainder of the present article to a consideration of the other, which may be stated in the following words:

A Fundamental Principle.

A change in the quantity of money in use, other things remaining as they were, tends to produce a corresponding change in the prices of the things which money buys, increase in the quantity of money tending to cause a rise, and decrease to cause a fall in prices.

This law may be stated in another form. Instead of saying that an increase in the quantity of money tends to raise prices, we may say that it tends to lower the value of money, and instead of saying that a decrease in the quantity of money tends to diminish prices, we may say that it tends to increase the value of money. A farmer has to pay a debt of $100.00, and must obtain the money by selling wheat. If the latter is worth $1.00 a bushel, he will get the needed sum for 100 bushels; if it is worth only 50 cents a bushel, he must give 200 bushels for the means of meeting his obligation. The dearer the wheat as compared with money, the cheaper the money as compared with wheat, and vice versa.

If, however, it is only an article here and there that changes its price, we very reasonably attribute the change

to some circumstance connected with the consumption or supply of the articles so changing. If, for example, there is a sharp rise in the price of wheat, our first thought is that there must be an actual or a prospective scarcity of that grain in consequence of a deficiency in the world's wheat crop. If, on the other hand, there is a decided fall, we think of an exceptionally abundant supply as the probable cause. If, again, there is a gradual and progressive fall, which, with more or less fluctuation due to the diversities of the seasons, continues through many years, we are justified in suspecting that the increasing use of labor-saving machinery in tillage, harvesting, etc., and the increasing accessibility of cheap lands suitable for the cultivation of this crop are reducing the cost of its production.

But if we look over the entire range of commodities and find that a fall in prices has been very general—so much so that while some articles may have remained stationary, or even have risen, there has, on a general average been a decided fall,—we are justified in raising the question whether such fall, or a considerable part of it, is not due to an increase in the value of money rather than to an almost universal decrease in the values of goods. So, also, if there were a general rise in the prices of goods, we should be justified in asking whether a decrease in the value of money rather than a general increase in the values of goods, were not the correct explanation.

There is no Fixed Standard of Value.

It is true that money is commonly spoken of as a measure of value, and it is also true that at any given time and place the relative prices of articles are, for practical purposes, the measure of their relative "values" then and there; but it does not by any means follow that the value of money is itself invariable.

No one disputes the truth that an increase in the supply of butter, eggs, meat, or any other commodity, without a corresponding increase in the demand, lowers the value of the article, or that, on the other hand, a decrease in the supply, without a corresponding decrease in the demand, has the opposite effect. The same law applies to money; but as we are accustomed to express all values in terms of money, changes in the value of the latter are not brought to our attention by any corresponding changes in the words by which the values are denoted. A certain coin or note is called a dollar, and though its value ten years hence may be greater or less than now, we shall not be able to indicate that fact by any change in its name. It will still be called a dollar just as if its value had undergone no change, for the simple reason that we have no other name by which to call it.

Nor is it practicable to fix upon any object in existence and say that its value can be used as a criterion by which to form an infallible judgment as to the extent of the changes taking place in the values of all other things, because there is no exception to the rule that all things are liable to change in their values. The precious metals fluctuate far less than most things from day to day, from month to month, and from year to year, because the existing stock of them is so large that the supply of them is comparatively independent of the output for any one year.

But if we trace them through a considerable number of years, we find very great changes in their values. The late Prof. Jevons, in his "Money and the Mechanism of Exchange" (first paragraph of chapter XXV) remarks in regard to gold that "there is abundance of evidence to prove" that its value "has undergone extensive changes." He says: "Between 1789 and 1809, it fell in the ratio of 100 to 54, or by 46 per cent * * * . From 1809 to 1849 it rose again in the extraordinary ratio of 100 to 245, or by 145 per cent, rendering government annuities and all fixed payments, extending over this period, almost two and a half times as valuable as they were in 1809. Since 1849 the value of gold has again fallen to the extent of at least 20 per cent." (This was written in or before 1875. Since that time gold, measured by the same standard, has again increased in value.)

How far does Supply affect Value?

As to the degree to which the value of money is lessened by increasing, or increased by lessening, the supply, there is room for considerable difference of opinion. Some writers lay so much stress on the extent to which exchanges are effected by means of checks, bills of exchange, and other forms of credit as to convey the impression that variations in the money supply are comparatively unimportant. Such a view may be found in Prof. F. W. Taussig's monograph on "The Silver Situation in the United States," issued as No. 1, Vol. VII. of the publications of the American Economic Association. But one of the most eminent of living writers on money—Gen. Francis A. Walker—in a paper read before the Association just named in September, 1883, points out that while these various forms of credit diminish the demand for money, "it still remains true that the demand for money, whatever that may be, does, taken in connection with the supply, determine prices:" and it must also be true that whether the demand be great or small, a change in the supply without a corresponding change in the demand will cause a change in the general level of prices.

It may be said that a material change in the supply of money without some change in the demand, rarely, if ever, occurs, since demand tends, in some measure, to adjust itself to the changed conditions. There is enough of truth in this view to warrant the belief that the change in prices resulting from a change in the supply of money is not, as a rule, in full proportion to the change in that supply. But the history of all great expansions and contractions of the currency affords ample evidence of the effective operation of the law under consideration. The statistics at our command are never sufficiently complete to enable us to ascertain the exact degree in which prices rise through a given increase or fall through a given decrease, in the supply of money; but that they do rise through the one and fall through the other is the general teaching of experience.

Goods not a Fixed Standard

It would be a mistake to infer from anything thus far written that a change in the general level of prices necessarily implies an inversely proportional change in the value of money. To do this would be to assume that goods taken collectively constitute a fixed standard of value. This they certainly do not, even for theoretical purposes. All that can be claimed is that changes in the general level of prices furnish indications which, considered in connection with other circumstances may aid us in forming an approximate estimate of the changes in the value of money. On the whole the preferable form of statement for the law discussed in this article is the following: An increase in the supply of money, other things being equal, diminishes the value of the monetary unit, and a decrease has the opposite effect.

II.

GRESHAM'S LAW.

THE familiar statement of the principle commonly known as Gresham's law is that bad money will drive good money out of circulation. A more accurate statement is that, of two kinds of money both of which are a legal tender in all amounts, the cheaper, if issued in sufficient quantities, will drive the dearer one out of circulation.

The proviso in regard to its being issued in sufficient quantities is necessary, as may be seen from the fact that our silver dollars do not drive gold out of circulation so far as to expel our gold reserve, though, it must be admitted, they have come dangerously near to doing so. They are legal tender in all amounts, but their quantity is limited and the law does not permit its increase. Were their coinage unrestricted, we might expect to see the effect always produced by the operation of Gresham's law under such circumstances; and in the absence of any great change in the conditions of supply, demand and price, as regards gold and silver, respectively, this effect would be the expulsion of gold from the circulation.

Let us see why it would be so. Suppose that a man has $50,000 with which to purchase property or pay debts. Open the mints to the unrestricted coinage of silver, and he can buy $50,000 worth of silver bullion, getting enough to make about 100,000 silver dollars, each one of which would go as far in paying debts, and at first nearly as far in buying property, as a dollar of the money he invested in the silver bullion would have done. It is true that operations of so extremely profitable a character would speedily cease to be possible. Silver would rise in price, especially as measured in our own money, since the latter as it increased in quantity under the stimulus of unrestricted silver coinage would diminish in value. Still the margin left for making a profit by buying or mining silver and converting it into coin would probably remain wide enough to keep our mints very busy for years to come.

Why Gold Would be Withdrawn.

It is quite clear that under such conditions much additional silver would get into circulation; but why should gold go out? The answer is that as silver would come in because a large number of persons would be interested in causing it to do so, gold would go out for a precisely similar reason. We saw, in the first article, that an increase in the supply of money without a corresponding change in the demand would diminish the value of the monetary unit, and we have just seen that such an increase in the supply would be a prompt result of the admission of silver to unrestricted coinage, while there is no reason to anticipate any similarly rapid increase in the demand. A fall in the value of the dollar would, in fact, be certain, and it would be by no means a slight one. This would change its relation to commodities in general, and, among other things, to gold bullion. As money, gold coin would be of no more value than silver coin, except in cases where contracts have been expressly made on a gold basis. But its metallic contents would have the same value here as in the rest of the commercial world, less the trifling cost of transportation to another market. Now whenever the metallic contents came to be worth more than the coin itself, considered as money, every gold coin reaching the hands of merchants, bankers, and other persons who handle money in considerable sums would, as far as possible, be detained for a more profitable use than making payments on an equality with silver. Why should I use $100 in gold in making purchases or paying debts, if by selling it to a jeweler or money broker I can get $101 in silver, which will answer the same purpose and leave me a dollar to spare? And why should anyone do so who knows that the metal in the gold coin is worth more than the coin itself will pass for in making purchases or paying debts? If the difference were still greater, so much the stronger would be the motive for thus withdrawing the gold coins from circulation. As a matter of fact, very few of them are in circulation now among the people. Aside from hoards, they are mainly held by a very limited class, and that composed of men who would be fully informed as to every change in their value.

Where the Gold Would Go.

Where would the gold coin withdrawn from monetary uses find its ultimate market? Considerable sums would doubtless be hoarded. Some might be melted down by jewelers and others in the United States. But probably by far the greater part would be exported. No small portion of the latter might be exchanged for silver thrown out of monetary use by France, Germany, Austria-Hungary and other countries, every one hundred dollars in gold buying enough silver to coin into one hundred silver dollars and leave at least a sufficient surplus to pay for the trouble and costs involved in the exchange.

We see, then, that Gresham's law is simply a statement of what will happen under given conditions as a result of individual action as determined by self-interest. One dollar being as good as another for the purpose of paying debts and making purchases—that is, for the purpose of circulation as money—people who were about to have dollars coined would use for that purpose the cheaper material rather than the dearer one, since that is the way in which they would get the largest number of dollars at a given cost. The circulation would, in short, be replenished out of that metal which would produce dollars most cheaply. On the other hand, coins that for melting or exportation were worth more than their face value would not be used by their holders for a purpose for which the cheaper dollars would answer equally well, namely that of paying debts or making purchases. The gold would be withdrawn from circulation on the one side, while silver would be poured in on the other, and the proposition of Gresham's law that the cheaper money will drive the dearer out of circulation would be proved true.

The Teaching of Experience.

It has, in fact, been proved true under all the conditions under which it has hitherto been tried. Between 1792 and 1834 money could be coined in the United States at the rate of 24¾ grains of pure gold or 371¼ grains of pure silver to the dollar. During the latter half of that period the silver required to make a dollar was almost continuously cheaper than the gold required for the same purpose, and the effect is seen in a great preponderance of the silver coinage. Laughlin, in his History of Bimetallism in the United States, p. 31, says: "The divergence of the market from the mint ratio brought

Gresham's law into operation as early as the period from 1805 to 1810, and before 1820 it had virtually driven gold out of use as a medium of exchange."

After the change of the legal ratio in 1834, the same law soon began to operate in the other direction, gold having become the cheaper material for money. To such an extent was silver coin drained away that it became impossible to retain enough of it for small change, and in 1853 provision was made for a subsidiary silver coinage containing a smaller quantity of metal.

The same law might be shown to hold good as between paper and metallic money, where the former is issued in excessive quantities by governments or permitted to be issued by banks without adequate guarantees for its redemption on demand.

At the time of Sir Thomas Gresham, in the sixteenth century, the law was seen operating in connection with worn, clipped and debased coin on one hand and coin of full weight and fineness on the other, the latter being driven out of circulation by the former. It was to this phase of the operation of the law that Gresham directed his attention.

Earlier Discoveries of "Gresham's Law."

McLeod, who was the first to designate the principle under consideration as "Gresham's Law," has lately pointed out, in an article in the Nineteenth Century, that Nicolas Oresme, a statesman of the time of Charles V., of France, and Copernicius, in a treatise on money drawn up at the instance of King Sigismund of Poland, had both anticipated Gresham in a correct statement of the law now known by the name of the last mentioned. It was, however, known as a matter of experience, even to the ancients, for the Greek poet, Aristophanes, alludes to it in his comedy of the Frogs, and the following extract from Frere's translation of that poem is prefixed by Laughlin to his History of Bimetallism in the United States:

Oftentimes have we reflected on a similar abuse
In the choice of men for office and of
coins for common use;
For your old and standard pieces,
valued and approved and tried,
Here among the Grecian nations, and
in all the world beside,
Recognized in every realm for trusty
stamp and pure assay,
Are rejected and abandoned for the
trash of yesterday;
For a vile, adulterate issue, drossy,
counterfeit and base,
Which the traffic of the city passes current in their place.

A Point that Should be Noted.

It is not to be assumed, however, that the cheaper money by which the dearer is expelled is always and necessarily a worse money than the latter. For one of the most important uses of money—that of furnishing a standard for deferred payments—that money is best which changes least in value between the contraction and the payment of a debt, an increase in the value of money being as justly objectionable from the debtor's point of view as a decrease is from the creditor's.

III.

GOLD MONOMETALLISM.

BY GOLD monometallism is meant a system in which the standard monetary unit is of gold and in which gold is the only metal received at the mints and coined for any one who may offer it for the purpose in the manner prescribed by law.

Another condition usually considered essential to gold monometallism is that the gold coins be the only ones that are a legal tender in all amounts. The term is sometimes applied to the system now in operation in this country, under which the silver dollar can by law be tendered in all amounts in payment of debts, but is kept at a parity with gold.

So long as the means adopted to maintain this parity are effective, our system has the most essential requisite of gold monometallism, in that it makes gold the monetary standard; but it permits so large a use of silver coin, silver certificates, and notes issued in exchange for silver bullion, that it may, perhaps, be correctly regarded as a modified form of bimetallism.

Main Argument for Monometallism.

The main argument in favor of monometallism is found in the existence of Gresham's law (explained in the second article) and in the impossibility—judging by the past experience of nations—of escaping the effects of its operation. Everywhere and at all times the market ratio between the value of gold and that of silver has been more or less variable, just as are the ratios between the values of other exchangeable things. Prior to 1874 the variation was, indeed, comparatively small, the lowest annual average found in a table covering 187 years ending with 1873 being 14.14 (the average ratio for 1760) and the highest being 16.25 (the average for 1813). But a very small difference between the commercial and legal ratios suffices to cause the hoarding, melting or exportation of the coins whose value, as declared by law, is less than their market value as bullion.

The remedy, according to the advocates of monometallism, is to refrain from declaring any value by law—that is, refrain from setting up a system of coinage in which so many ounces of silver are assumed to be equal in value to one ounce of gold—and make the standard money of one metal only. The fixing of a legal ratio between the metals for coinage purposes, it is argued, will not prevent the commercial ratio from varying, nor will it prevent the coins from obeying the latter ratio by passing out of circulation when legally undervalued.

The result is that what is called a double standard is really an optional standard, the option resting with the debtor, who naturally avails himself of his legal right to pay in the cheaper money. Under such a system, it is urged, the creditor cannot positively know, especially in making contracts that are to run for a considerable period, whether he will receive silver or gold in payment. Monometallism, it is contended, obviates this difficulty and gives a perfectly definite meaning to contracts. If a contract is made to pay $1,000 at some future date, it will

mean under gold monometallism that the creditor will have the right to claim gold coins containing in the aggregate one thousand times 25.8 grains of standard gold (nine-tenths fine). Under silver monometallism, it would mean that he would have the right to claim one thousand silver dollars, each containing 412½ grains (nine-tenths fine). In either case the meaning would be perfectly definite as regards the material objects to be claimed by the creditor; whereas under a bimetallic, or double standard system, the debtor would have the option of paying either in gold or silver, according as he might find it most to his advantage to use the one or the other when the time of payment should arrive.

Under monometallism, say its advocates, governments are spared from attempting the impossible task of fixing values. All they have to do is to fix upon a monetary unit containing a certain definite quantity of metal of a certain specified degree of fineness, and then leave buyers and sellers to fix its value by bargaining freely among themselves in respect to the number of units (dollars, pounds sterling, marks, francs, etc., as the case may be) to be paid for each object bought and sold.

Under such conditions, all that can be predicated as to the value of the monetary unit is that it will not vary materially from that of the metal it contains. If through a sudden increase in the demand for money it should come to be worth more, there would at once be a profit in converting bullion into coin, and the quantity of the latter would thus be increased until there was a substantial equality of value between coin and an equal quantity of bullion. An abundant yield of the money metal may cause its progressive depreciation, but the relation between coin and bullion is so close that it can not depreciate the one without producing a corresponding depreciation in the other. If through a temporary superabundance of coin the latter should become worth less than so much bullion, the surplus could at once be melted down. Coin is, in short, always potential bullion, and, as such, can not remain for any length of time of less than bullion value.

The Bimetallist View.

It is, however, pointed out, on the other hand, by bimetallists that such an identity of value between coin and bullion does not insure stability of value, and that the definiteness which monometallism insures as to the exact material and the exact weight and fineness of the coins in which contracts are to be settled does not at all insure definiteness as regards the value to be paid, since the value of the standard money metal is itself subject to great changes. It is urged, moreover, that the attempt to secure the first kind of definiteness by the general adoption of gold monometallism has the effect of producing a vast increase in the demand for gold and thus is itself the direct cause of a great increase in its value and consequently in the value of the gold money in which debts are payable under this system. In this way, it is charged, a grievous wrong is done to the whole debtor class, including the taxpayers of all countries, municipalities, etc., that owe any considerable amounts of public debt contracted under another system.

Such arguments as these are entitled to much more respectful treatment than they have generally received at the hands of gold monometalists, but their consideration cannot be entered upon at this point.

Silver Used along with Gold.

In the meantime it may be observed that gold monometallism, as the word is to be understood, does not preclude the use of a considerable quantity of

silver. Gold is not adapted to the smaller transactions of retail trade which constitute so large a part of the business of any people, and for use in these, silver, as well as some cheaper metal for minor coins, is very necessary. Under gold monometallism the silver coins, like those of bronze or other cheaper metal, are only "tokens", though prior to the depreciation of silver they were tokens of comparatively near the full nominal value assigned to them. "Token coins," says Jevons in his Money and the Mechanism of Exchange, (Chapter VIII) "are defined in value by the fact that they can, by the force of law, or custom, be exchanged in a certain ratio for standard coins. The metal contained in a token coin has of course a certain value; but it may be less than the legal value in almost any degree."

In order that such coins may serve their purpose, it is necessary to avoid making them so nearly of full weight that by a rise in the value of silver they might become more valuable than the standard coins, since in that case they would disappear from circulation under the operation of Gresham's law; but on the other hand it is considered advisable not to make their metallic value too far below the value for which they pass as money, since in that case there is a temptation to counterfeit them, and counterfeits made of genuine metal might be difficult to detect. It is an essential part of a system of token coins that they can be coined solely on government account, the governments coining them becoming liable to the public for the difference between their nominal and metallic values. Our own fractional silver coins are sold for lawful money to any one desiring them in sums not less than $100 and they are also redeemed on demand in sums of $20 or any multiple thereof. They are a legal tender up to the amount of ten dollars.

Advantage of Gold over Silver.

The advantage claimed for a single standard of gold over a single standard of silver consists in part in the comparative ease with which, by the system of token coinage just referred to, a concurrent circulation of the different metals can be secured. But an advantage that is, perahps, of still greater importance is the superiority of gold in the matter of compactness, portability, and general adaptation for use in the large transactions of great commercial nations. It is no small advantage to save the extra space that would be required for storage and the extra time that would be consumed in counting or weighing, if silver were substituted for gold in such transactions.

IV.

BIMETALLISM.

THE ETYMOLOGY of the word Bimetallism indicates a reference to two metals, the metals referred to being gold and silver. Other metals are applied to monetary uses, but the functions they perform are comparatively limited and unimportant. In the present article there will be occasion to consider bimetallism in three different senses of the word. We may say that bimetallism means (1) a system under which gold and silver alike are received at the mints from all who may present them, and coined for them into money which is a full legal tender in the payment of debts, the relative values of the two metals for coinage purposes being fixed by law; (2) the concurrent circulation of the two metals in the currency of the nation in which such a system is established, supposing such a result to be attainable; (3) a state of things under which gold and silver, whether circulating concurrently in particular countries or not, are yet on the whole about equally available to supply the world's need of metallic money.

Concurrent Use Not Attained.

Bimetallism in the first of these senses has been incidentally referred to in preceding articles of this series, and our consideration of the working of Gresham's law has shown us that if the coinage ratio adopted by any nation using the bimetallic system should differ from the commercial ratio between the two metals to such an extent as materially to undervalue either one of them, the undervalued metal would tend to disappear from the circulation of that country, and leave its metallic currency composed mainly if not wholly, of the other metal. It must, I think, be admitted, too, that, under all the conditions which have heretofore existed, governments have found it impossible to fix upon any coinage ratio with which the commercial ratio would for any length of time agree. Some nations have used the single standard of gold, others the single standard of silver, and, of those attempting to maintain a bimetallic system, some have adopted one ratio and some another. There was thus the possibility that a bimetallic country would find one metal or the other drawn away from it, not only to countries using such metal as their sole standard, but also to other bimetallic countries in which it was rated above its commercial value. Precisely in this way our own country participated in drawing gold away from France between 1834 and 1850, our ratio of 16 to 1 being such as to overvalue that metal while the French ratio erred a little in the opposite direction. For the same reason, France participated in drawing away our silver, since her undervaluation of gold was an overvaluation of silver, while our overvaluation of the former was an undervaluation of the latter. With bimetallic nations themselves thus working at cross purposes, the natural difficulties in the way of their securing a concurrent circulation of the two metals were aggravated. Whether this result might or might not have been attained under more favorable conditions, it has, under the conditions heretofore prevailing, been attained, if at all, only in a very imperfect degree.

One Useful Purpose Served

So far, then, as it was intended to produce this particular result, bimetallism, as a legal system, has in a great measure failed of its object; and this is equivalent to saying that it has failed of the main object which the particular nations adopting it had in view. But it does not follow that it has answered no useful purpose in the world's monetary economy. Bimetallists claim that its existence in France, between 1803 and 1873, with a coinage ratio of 15½ to 1, contributed powerfully to keep the commercial ratio between the metals in the neighborhood of that figure, and I see no reason to doubt that the claim is well founded.

Prior to the discoveries of gold in California and Australia, that metal had a higher value than was assigned to it in the French coinage law; that is, a gram of gold was commercially worth more than 15½ grams of silver. So long as this state of facts remained, the monetary circulation of France consisted chiefly of silver, it being to the advantage of the French people to pay in silver rather than in gold; but after the discoveries referred to, the abundant new supplies of gold thrown into the markets of the world by the mines of California and Australia, cheapened that metal; and within a few years a gram of gold, instead of being worth more than 15½ grams of silver, became worth less. It was now to the advantage of Frenchmen to make their payments in gold rather than in silver, and it was chiefly gold that now found its way to the French mints. As gold came into circulation through the process of coinage, silver went out, chiefly by exportation to other countries; and it took no great number of years to establish a marked preponderance of gold in the French circulation, in place of the preponderance of silver which had previously obtained. If we suppose a concurrent circulation of the two metals in something like equal proportions to have been a matter of very much importance to France, it must be admitted that, from a French point of view, bimetallism was not a success. But if Germany could then get along comfortably with a single standard of silver, and Great Britain with a single standard of gold, it may be supposed that France suffered no intolerable inconvenience when her circulation under the bimetallic law consisted mainly of the former metal, or when it came after the new gold discoveries to consist mainly of the latter.

New Supply Met by New Demand.

On the other hand, it cannot be reasonably doubted that the transfer of the French monetary demand from silver to gold during the years when the produce of the Californian and Australian mines was being most abundantly poured into the world's markets had a powerful effect in counteracting the tendency of the increased supply of gold to depress its value relatively to that of silver. The absorption of gold in France, and in other countries having the same coinage ratio did much to equalize increase of demand with the increase of supply; while, on the other hand, the liberation of a large part of the stock of silver previously in use as money in the same countries increased the supply of that metal available for the countries having the single silver standard. Thus, it is clear that under the operation of economic laws, universally recognized as true, the tendency to a fall in the value of gold, and a rise in the relative value of silver, as the result of the new gold discoveries, must have been powerfully counteracted. It follows from this that, in

the absence of the steadying effects due to this new demand for gold in the bimetallic countries, the rise of prices in countries having the gold standard, and the disturbance in the relations between debtors and creditors necessarily attending a change in the value of the monetary unit, would have been very much greater than they were. And if silver-using countries would have escaped participation in these effects, they might have suffered to some extent from a too scanty supply of silver, and a consequent decline in their prices, while those of the gold-using countries were rising.

On the whole, it is pretty clear that if bimetallism as a legal system has failed to secure for the nations adopting it, the sort of bimetallism indicated by the second of the definitions used at the begining of this article, it added very materially in keeping the sort indicated by the third in good working order, for the benefit of the world at large, through at least one period of severe strain.

A Change was Inevitable.

It must be admitted, however, that this third sort of bimetallism could hardly have been expected to continue undisturbed during an age of such commercial activity and rapid international intercourse as characterize the latter half of this century. Its maintenance depended upon the retention of the single standard of silver by a sufficient number of nations to serve as a balance to the nations using the single standard of gold, so that on the whole there might be an adequate monetary demand for both metals to keep their relative values about as they had been. To say nothing of difficulties arising from changes in the proportions in which the precious metals were produced, it was not to be expected that nations aspiring to an active commercial career, like Germany after the constitution of the empire, should be content to retain indefinitely the silver standard, however convenient for the gold-using countries such a course might have been. It was, therefore, practically a question between the movement towards gold monometallism, which has actually taken place and the counter-movement in favor of international bimetallism, which is advocated as its alternative.

V.

INTERNATIONAL BIMETALLISM.

WE SAW in the last article that the establishment of bimetallism as a legal system in a particular country is far from assuring to that country an actual concurrent circulation of the two metals. But bimetalists contend that if bimetallism were made general as a legal system, through an agreement of the leading commercial nations of the world upon a common ratio between the value of gold and that of silver, such ratio being fixed with a reasonable degree of approximation to the normal commercial ratio at the time, no material difference between the legal and commercial ratios could arise. Their argument is based upon two propositions, namely:

1. The demand for gold and silver for monetary purposes forms so large a part of the total demand for these metals, that it is a highly important factor in determining their values.

2. Under the operation of the bimetallic system the monetary demand is always for the cheaper metal; that is, for the metal which at the relative value fixed by law will produce money at the smallest cost.

It is obvious that if the second of these propositions is true, a comparatively small variation between the legal and commercial ratios would suffice to transfer the entire monetary demand of the nations having the common ratio agreed upon to the metal whose commercial ratio was below the legal one; but if the first proposition is true the concentration of so large a part of the total demand upon one metal would continue but a very short time before it would bring the value of that metal up to the point corresponding with the legal ratio. If it continued long enough to raise its value still higher, the other metal would then be the cheaper material for money, and the monetary demand would be at once transferred to that. Thus the relative values of the two metals would tend, either to remain in equilibrium at the common ratio fixed upon by the nations, or to oscillate about that ratio within very narrow limits. Bimetallism attempted by the leading nations of the commercial world, united as above indicated in an agreement on a common ratio, is what is meant by international bimetallism.

How Governments Can Affect Values.

It is often said that governments cannot fix the values of gold, silver, or other commodities, by legal enactment. This is very true; but it is also true that the action of governments may greatly affect the values of commodities. Suppose, for example, that a number of nations should become involved in a great war, in which cavalry was to play an important part, and there should all at once arise an urgent demand for tens of thousands of horses of a certain age and build for use in the cavalry service.* The effect would obviously be to cause a sharp rise in the values of such animals, since the increase of supply could not at once accommodate itself to the great expansion of the demand. Similarly, the monetary legislation of governments affects the demand for the precious metals, and in this way affects their

*Since this article appeared in The Pathfinder the writer has read Coin's Financial School and finds substantially the same illustration in that book. It would be easy to change it by substituting for cavalry horses any other objects which governments are liable to need in large quantities and at short notice; but this would be no improvement unless the object chosen were composed of a material as limited in its natural supply as are the precious metals, and, therefore, as liable as they to increased cost of production as a consequence of increased demand.

relative values. It is not directly in virtue of a governmental fiat fixing the ratio between gold and silver at, say 24 to 1, that there would be any tendency of the commercial ratio to adjust itself to the same figure; yet such a tendency might be expected to manifest itself were that ratio adopted by international agreement. It would do so simply because such an agreement, carrying with it the universal option of using whichever metal might prove the cheaper material for money at the given ratio, would have the effect of concentrating public demand upon that metal; and thus, through the well known relation between demand and value, producing increase, or, at least, counteracting a tendency to decrease, of the latter. At 20 to 1 the demand for silver would be much larger than at 24 to 1, and the demand for gold proportionately smaller; but it is likely that at the lower ratio a considerable amount of gold would circulate concurrently with silver, and that even at a ratio of 30 to 1 a considerable amount of silver would circulate concurrently with gold. In other words, it is not likely that either ratio would be so remote from a normal one as to cause either metal entirely to vanish from monetary use; nor, indeed, can it be safely assumed that gold would entirely vanish with a lower ratio than 20 or silver with a higher one than 30. It is only safe to say that the lower the ratio the larger would be the proportion of silver in circulation, and the higher the ratio the larger would be the proportion of gold.

Supremacy of Natural Law.

We thus see that the supremacy of natural law would remain, in spite of the action of governments in fixing upon a common coinage ratio; but this supremacy would assert itself in the manner just described, that is, by an increase in the relative quantity of silver in proportion to the lowness of the ratio, or an increase in the relative quantity of gold in proportion to its elevation. It might of course be fixed so low that gold, or so high that silver, would cease to be used as money; or a ratio which when first adopted was reasonably close to a normal one, might come in course of time, through some great change in sources of supply and conditions of production, to be so far removed from it as to produce the result in question. Of these two possibilities, the first scarcely needs to be considered, and the second would hardly be a source of very serious apprehension; but it might easily happen that, through such a change as that indicated above, the relative amounts of the two metals in circulation might be greatly altered, one of them becoming unduly scarce and the other acquiring an inconvenient preponderance.

The reason why Gresham's law would not produce the same results as under the conditions heretofore existing is to be found in the fact that under a system of general international bimetallism, a metal undervalued in one country could not, as hitherto, be exported to others in which it was valued higher;since it is a condition of international bimetallisim that all countries, or at least all the more important ones, would value it alike.

In determining what ratio to adopt, the effect of the ratio adopted upon the proportions in which the two metals would circulate would, of course, be a very important point to consider; and nations having a large and active commerce would be interested in not making the ratio so low as to give the more cumbersome metal a preponderance. But another point of at least equal importance, and one that might present greater obstacles to agreement than the first one named, would have relation to the effect produced upon the existing unit of value in each country. The adjustment of questions of recoinage, in passing from present ratios to any new one, would also present serious practical difficulties.

Effect on Production of Metals.

About the practicability of procuring a general agreement among commercial nations, there may be great doubt, but about the effects of such an agreement, could it be assured, there need, I think, be comparatively little. One metal or the other might be undervalued in fixing the ratio, and the effect of its undervaluation would be to discourage its use as money to a greater or less extent, depending on the degree of such undervaluation; and the discouragement of its use as money would, of course, result in a proportionate discouragement to its production. Mines which, under other circumstances, might be successfully worked, would be abandoned, while mines of the overvalued metal, which under other circumstances could not have been worked, would become profitable. The proportions of gold and silver produced and used would thus be materially affected; but the deviation of the coinage ratio from a normal one would probably have to be very wide indeed before either metal would cease entirely to be produced for monetary use.

Important Practical Questions.

International bimetallism is then theoretically quite possible; the main difficulty in its way being that of bringing about the necessary agreement between a sufficient number of nations, and ensuring such a continuance of the agreement as to give permanence to the system. Whether it is also desirable is quite a different question, the answer to which depends largely upon the further question whether it would give greater stability to the unit of value than it now possesses. Bimetalists complain, as we saw in the third article of this series, that the movement of the commercial world towards gold monometallism has greatly enhanced and is still enhancing the value of this unit, and has thus done and is still doing grievous injury to debtors in all the countries to which it has extended. It appears to be their belief that bimetallism, internationally established, would remedy this evil, and would not involve any danger of giving rise to an equally great one of an opposite character. Many American bimetalists go so far as to contend that this would be the case if bimetallism at the ratio of 16 to 1 were adopted by the United States alone, without reference to the action of other countries. Monometalists, on the other hand, generally maintain that if the value of monetary units has been increased at all by the spread of gold monometallism, the increase has been but slight; and I think it may be said that most of them believe, on the other hand, that bimetallism, even if internationally adopted, would give us monetary units more objectionable on the score of their decreasing value than are our present ones in countries where the gold standard prevails on the score of their increasing value. These opposite views involve difficult questions of economic theory, as well as questions of fact. They deserve the most serious consideration from both points of view, that of theory and that of fact; but their discussion does not come within the scope assigned to the present series of articles.*

*Some of these questions have been examined in other papers prepared by the author of this pamphlet.

VI.

UNCONDITIONAL BIMETALLISM.

THE phrase "unconditional bimetallism" used in the caption of this article denotes what in the first article of this series was referred to as "American bimetallism," or bimetallism for the United States, independent of the co-operation of other countries.

In the fourth article it was shown that the word bimetallism may be used in at least three different senses. The first definition given was that which refers to bimetallism as a legal system—that is, "a system under which gold and silver alike are received at the mints from all who may present them, and coined for them into money which is a full legal tender in the payment of debts, the relative values of the two metals for coinage purposes being fixed by law."

This is the sense in which the word is used by those who advocate bimetallism for the United States without reference to the action that may be taken by other countries; and it may be added that they are generally agreed in insisting that the ratio to be fixed by law shall be the one heretofore in use, which is approximately 16 to 1. "Free coinage of silver at 16 to 1" is a brief statement of the policy which they seek to have adopted by the Government—"free coinage" meaning simply unrestricted coinage, such as exists in the case of gold.

Anything like a full statement of the arguments for and against this policy would occupy much more space than can here be given to them, but a few of the leading ones may be briefly noticed.

"The Money of the Constitution"

It is a favorite saying of unconditional bimetalists that gold and silver are the money of the constitution. It would be an error, however, to suppose that there is any constitutional provision requiring the use of a bimetallic system in the United States. The constitution forbids any State to make anything but gold and silver coin a legal tender in the payment of debts; but this pohibition does not apply to Congress, and it has been decided by the Supreme Court that that body acted within its constitutional powers in providing for he issue of legal tender notes by the national Government. The constitution (Art. I, Section 8) empowers Congress "to coin money and regulate the value thereof and of foreign coin," and the money provided under this authority must be accepted as "the money of the constitution," whether the monetary system established by law be bimetallic or monometallic. The discretion of Congress in respect to this point appears to be entirely unhampered by any constitutional restriction.

Injustice to the Debtor Class.

The most serious and formidable argument against the change of system inangurated by the coinage act of Feb. 12, 1873, is that which has to do with its effects on the relation between debtor and creditor. Down to the date named the debtor had always possessed the legal option of paying any claim against him in dollars of silver or dollars of gold, according to his own pleasure or interest. Monometalists point out that for about thirty-five years before the date in question, gold was the metal which had actually been in use. During all that time the 25.8 grains of standard gold required to make a gold dollar could be obtained at smaller cost than the 412½ grains of standard silver required to make a silver one; and under these circumstances gold coin, as being the cheaper money, was the money used. Silver was worth more as bullion than as coin, and in order to keep enough of it in the form of coin to serve as small change, it had—as we have seen in a former article—been found necessary to authorize the coinage of pieces containing a smaller amount of metal, so that there might be no temptation to melt or export them. This was done in 1853, the light-weight pieces authorized being the fractional coins from the half-dollar downwards, which being of less than their nominal value, were made a legal tender to the amount of five dollars only. The silver dollar of full weight remained a legal coin. Any one had the right to have silver bullion made into silver dollars, but as it was no one's interest to do so, there were practically none coined. This was the case down to the suspension of specie payments in 1862, and the commercial ratio between silver and gold was such during the eleven succeeding years, that it must have continued to be the case down to the passage of the coinage act of Feb. 12, 1873, even had specie payments continued uninterruptedly to that time. The average ratio of silver to gold for the year 1872 is set down at 15.63, according to which the metal in a silver dollar was that year worth about 2.3 per cent more than the coin was worth as money. This was probably about its value on Feb. 12, 1873, the date of the passage of the act which stopped the coinage of the silver dollar. It is urged in defense of that provision of the act that there could have been no motive inimical to the debtor in merely depriving him of an option which under the circumstances existing at the time he could have no interest in using—that of paying in dollars worth over two per cent more than those provided for in the new law, an option which moreover he had not exercised for thirty-five years.

Value of the Debtor's Option.

But while such considerations go to show that legislators may have voted for the act in question without any suspicion that they were doing an injury to the debtor, or that such injury was in any way likely to result from their action, they by no means prove that in so doing they acted with an intelligent understanding of the situation. Important considerations might, no doubt, have been adduced in favor of the course they took, even if the case had been understood in all its bearings; but there were also very important considerations on the other side, which there is reason to believe that most of them overlooked. Whether there were any among them who saw further than the rest into the future and deliberately planned to benefit the creditor at the debtor's expense is a personal question that need not be discussed here, but vehemence of assertion upon this point can not fairly be accepted as proof.

A glance at the statistics of production of gold and silver from 1850 to 1873 shows that after the production of gold from the new mines of California and Australia had passed its maximum there was a steady gain in the propor-

tion of silver produced. The proportions of the two metals by weight are shown below by periods from 1851 to 1875, inclusive:

	Percentage of total product.	
	Gold.	Silver.
1851-55	18.4	81.6
1856-60	18.2	81.8
1861-65	14.4	85.6
1866-70	12.7	87.3
1871-75	8.1	91.9

The commercial ratio of silver to gold had also been slowly rising, having increased from an average of 15.37 in 1863 and 1864 to an average of 15.63 in 1872. The increase in the proportion of silver produced which is apparent within the period covered by the above table continued until 1890, and it is possible that this cause alone might have sufficed to cheapen that metal to such an extent as to make it to the interest of American debtors to use it in preference to gold on the resumption of specie payments, if the option of so doing had not been taken away from them by the act of Feb. 12, 1873. If Germany had in the mean time demonetized silver and the Latin Union discontinued its coinage, as actually happened under existing conditions, there can be no question that the metal would have been so cheapened as to bring it into use here, and when specie payments were resumed they would have been resumed on a silver basis.

Would Have Conduced to Equity.

Now so far as this would have affected the relations between debtor and creditor, it is pretty clear that it would have been conducive to equity. Debts had for many years been contracted on the basis of a depreciated paper currency, and the silver in which they would have been paid would have had, on the whole, a considerably higher value than the paper in use when they were incurred; so that even on a silver basis the creditor would have profited to some extent at the debtor's expense; but his profits would have been far less than they have been with specie payments resumed on a gold basis. When we reflect that not only private debts, but the heavy war debts contracted on a paper basis by the United States and by State and municipal governments, would have been affected and that if they could have been settled in silver, the value paid would have been far less in excess of the value received than it has been under actual circumstances, we can at least understand the feeling that leads many of the advocates of "free silver" to denounce the coinage act of 1873 as a crime. On strictly legal grounds the creditor, if paid in silver, would have had no more cause of complaint than he would on the score of equity; because a knowledge of the law is always presumed, and when the debts created prior to Feb. 12, 1873, were contracted, the debtor, whether an individual, a corporation or a government, possessed the legal option of paying in gold or in silver, at his own pleasure. The fact that this right was at the time a part of the law of the land made it legally a part of every contract between debtor and creditor.

From other points of view, there would have been serious disadvantages in being on a silver basis, but these might in due time have been obviated, as similar ones were in the legislation of 1834-37, by so reducing the weight of the gold dollar that it could again have come into circulation. Under the circumstances there would have been no violation of equity in such a course.

The Practical Question.

But the practical question now is not what course might have been best in 1873, but what course is best under all the circumstances of the present time.

The debts we have now to do with are in the main debts that have been contracted on our present gold basis, and to pass from a gold to a silver basis with silver at its present commercial value would be to scale down these debts, or the bulk of them, by about one-half of their amount. If a wrong was done to debtors in passing the act of 1873, a still more flagrant wrong would now be done to creditors by enacting a law for the unrestricted coinage of the silver dollar at the ratio of 16 to 1. Nor is there any certainty that a large part of the persons who would suffer as creditors now would not be the same persons, or descendants of the same persons, who suffered as debtors after the passage of the act of 1873. There is no such thing as a permanent class of either debtors or creditors. Most persons belong sometimes to one class and sometimes to the other. Moreover it is a great mistake to assume that debtors as a class are always poor and creditors relatively rich; for the rich are able to give security or can even borrow without it on the basis of their known credit, and it is notorious that they often do borrow and use profitably in their business the money of people who are far less wealthy than themselves—not necessarily by direct negotiation with the latter, but by obtaining from banks, insurance companies and other financial institutions money which the latter have deposited or invested in them. Granting, then, that the act of 1873 did a wrong to the debtor, that wrong can not now be repaired by another act that would do a wrong to the creditor. The case is one in which we cannot too carefully remember that two wrongs do not make a right.

Other Considerations.

It is urged as a reason for independent action by the United States, as well as for international bimetallism, that an appreciation in the value of gold is continually going on as a result of the world-wide movement towards gold monometallism, and that we consequently have to do not only with the wrong done to debtors by our coinage act of 1873, but with one that is still in progress. Waiving the question whether such an appreciation is really going on, and, if so, the question of its amount, in regard to both of which conflicting opinions are held, it may, I think, be said with a strong assurance of being within the bounds of truth, that there is no appreciation of gold coin at all to be compared with the depreciation which would take place in the money of the United States if free coinage of silver were adopted in this country without the co-operation of the other leading commercial nations of the world.

Some American advocates of free coinage for silver refuse to make any allowance for the effect of the silver now in circulation in keeping the demand for gold within bounds and so moderating any tendency to an appreciation in its value. For example, W. H. Harvey, the author of Coin's Financial School, maintains that the quantity of primary money, or money of ultimate redemption, alone determines prices, or the value of the monetary unit as compared with goods; and he, therefore, holds that any silver in circulation in countries where the standard is of gold has no effect in preventing prices from falling or gold from rising in value. Space will only permit the bare statement that on this point Mr. Harvey is at variance with the most eminent economic writers, and the reader may be interested in consulting on this subject the works on money of one of the ablest and most earnest of international bimetallists, namely, Gen. Francis A. Walker, who differs in toto from Mr. Harvey on the point in question.

The great inconveniences we should suffer as a nation from having a currency based on silver while the countries with which the bulk of our trade is carried on are using the gold standard is a point of decided importance; but this with a number of other considerations that are worthy of attention, must be omitted from the present discussion.

How a Silver Basis Would Be Reached.

A word may, however, be said as to the manner in which a silver basis would be reached. Some writers assume that on the enactment of a law providing for the free coinage of silver the value of the dollar would at once sink to that of the bullion contained in the silver coin of that denomination; that as the gold in the gold dollar is worth much more than this value, gold would at once cease to be used as money; and that this sudden withdrawal of gold from monetary use would involve a tremendous contraction of the currency with a consequent fall of prices far below their present level. This, however, amounts to saying that a drop of about fifty per cent in the value of the dollar would immediately produce the paradoxical effect of making its purchasing power greater than it had been before the drop took place; for a fall in prices is only another name for an increase in the purchasing power of money.

The truth is there would be no such sudden drop in the value of the silver dollar. A panic among foreign holders of American securities might cause the latter to be thrown upon our markets in large quantities, and for a time this might cause gold to be exported faster than silver could be coined to take its place, thus producing some contraction of the currency and a temporary fall of prices. But in any event no such contraction could occur as is implied in the notion that the gold spoken of in official reports as "in circulation," amounting to nearly half a billion dollars, would at once disappear. Much of it has, in fact, disappeared already, some, no doubt, by being melted for use in the arts and some by hoarding, the latter being of no more present service as a medium of exchange than if it, too, had gone into the melting pot. The currency cannot lose what it does not now contain.

The largest sum in sight is that held by banks as a part of their lawful money reserve. In serving as such a reserve, this is now performing a monetary function; and it would probably continue, though in gradually decreasing amounts, to perform the same function for some time after the adoption of free silver coinage. As the supply of money increased through the issue of new silver coin, the dollar would soon become a little less valuable than the metal in a one-dollar gold coin. Gold would then begin to pass out of circulation, by exportation or otherwise; but if it passed out faster than the new silver coin came in, contraction would ensue; and this could not proceed far without raising the value of the dollar and thus arresting the outflow of gold until an accumulation of new silver again produced depreciation.

As long as there was gold to pass out of circulation as the new silver came in, the increase in the total supply of money would be confined within very narrow limits, and the depreciation in the value of the dollar would accordingly be very slight; but when this point was passed, and each silver dollar coined was a clear addition to the amount of money in circulation, the process of depreciation would be rapid; and as soon as the dollar fell to an equality of value with the bullion in the silver dollar piece, our currency would have reached a silver basis.

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TITLE